

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Beaver Creek Elementary School District No. 26

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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Accounting Services Division Staff

Gregory Rickert, Manager and Contact Person
grickert@azauditor.gov

Paula Gustafson
Barbara Tanner

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 11, 2007

Governing Board
Beaver Creek Elementary School District No. 26
4810 E. Beaver Creek Road
Rimrock, AZ 86335

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Connie A. Sauvageau, CPA, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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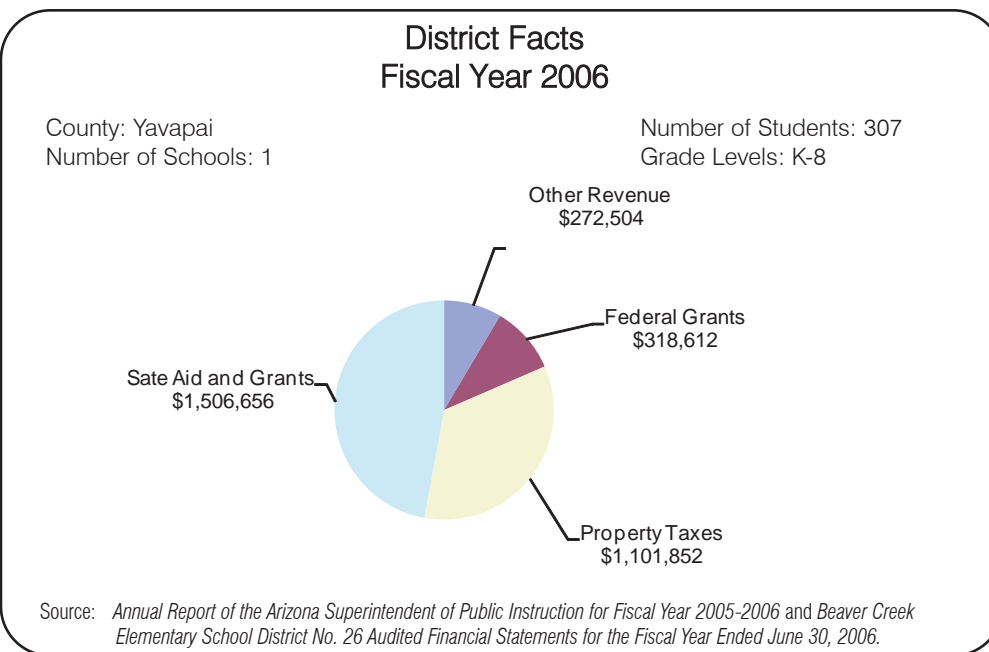
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Introduction

Beaver Creek Elementary School District No. 26 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$3.1 million it received in fiscal year 2006 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education. The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. Following these requirements helps districts ensure that they receive the best possible value for the public monies they spend.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

However, the District did not always follow the School District Procurement Rules and USFR guidelines. For example, the District did not obtain oral and written price quotations for all purchases requiring them. In addition, the District did not always retain written documentation to support the Governing Board's determination of a vendor as a sole source. Finally, the District did not analyze the known requirements for an item or a collection of items that, in the aggregate, would result in the purchase of the item or items from one vendor through the use of oral or written quotations.

Recommendations

To strengthen controls over competitive purchasing, the District should perform the following:

- Analyze the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above the applicable thresholds for oral or written price quotations and formal competitive bids or proposals from one or more vendors.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Maintain written documentation of a Governing Board determination that there is only one source for the required material, service, or construction item.

The District should improve controls over expenditure processing

The District spends public monies to purchase goods and services. It is essential that the District follows procedures designed to help ensure that its expenditures, including payroll, are adequately supported and accurately paid. However, the District did not have adequate controls over expenditures and payroll processing. Specifically, the District's Governing Board did not establish written policies governing the use of credit cards. In addition, the District's blanket purchase orders did not cover a definite time period, purchase orders were not always prepared prior to ordering goods or services, and vendor invoices were not properly canceled to help prevent duplicate payment. Also, the District did not always retain required records, as multiple purchase orders and a state procurement contract could not be located.

Further, the District did not withhold payroll taxes from payments to employees for additional duties, such as game officiating, scorekeeping, and ticket selling. Finally, the District did not ensure that all required documents were maintained in individual employee files.

The District did not maintain formal written policies governing the use of its credit cards.

Recommendations

To help strengthen controls over expenditure and payroll processing, the District should:

- Establish formal written credit card policies that include requiring authorized employees to submit credit card receipts that document the specific district purpose for each expenditure.
- Prepare blanket purchase orders that include a specific dollar limit and definite period of time the purchase order is in effect.
- Prepare purchase orders that are approved by an authorized employee prior to ordering goods and services.
- Cancel vendor invoices and other supporting documentation by stamping them "paid" and recording the voucher and check number, amount, and date paid on the invoice to avoid duplicate payment.
- Withhold payroll taxes from payments to employees for additional duties, including game officiating, scorekeeping, and ticket selling, if the employees are not considered independent contractors.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

Purchase order procedures are outlined on USFR pages VI-G-3 and 4.

The District's personnel files should include the documents listed on USFR pages VI-H-2 through 4.

- Retain documentation to support the District's financial and nonfinancial activities in accordance with the USFR and the *Records Retention and Disposition for Arizona School Districts* manual published by the Arizona State Library, Archives and Public Records Management Division.
- Prepare and maintain all required documents, including Employment Eligibility Verification forms (Form I-9), in individual employee files.

The District should strengthen controls over cash receipts and bank accounts

Poor cash controls left district monies susceptible to theft, loss, or misuse.

Because of the relatively high risk associated with transactions involving cash, school districts should establish and maintain effective internal controls to safeguard cash and ensure that cash is promptly recorded and deposited in bank accounts or with the County Treasurer. However, the District did not have adequate controls over its cash. Specifically, the District did not use prenumbered cash receipt forms and did not prepare daily cash receipt summaries for cash collections. Also, food service, auxiliary operations and student activities monies were not always deposited in a timely manner, and Food Service Fund clearing bank account monies were not remitted to the County Treasurer at least monthly. In addition, the District inappropriately made checks payable from the Food Service Fund clearing bank account to parties other than the County Treasurer. Further, the District did not use prenumbered deposit transmittal forms when remitting monies to the County Treasurer.

Recommendations

To help strengthen controls over cash, the District should:

- Prepare prenumbered and numerically controlled cash receipt forms for all monies received directly by the District (miscellaneous receipts).
- Prepare and retain daily sales reports or cash collection summaries to reconcile sales to cash collected for all monies received.
- Deposit all cash receipts daily, if significant, or at least weekly.
- Remit Food Service Fund clearing account monies to the County Treasurer to the credit of the Food Service Fund weekly, or at least monthly. No other disbursements should be made from this account.

- Prepare prenumbered deposit transmittal forms for monies remitted to the County Treasurer.

The District's controls over auxiliary operations and student activities monies should be strengthened

Auxiliary operations monies are district monies raised in connection with athletic activities. The District holds student activities monies raised through students' efforts for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established. For example, the District did not adequately separate duties of cash-handling and recordkeeping between employees. Specifically, an employee who was responsible for auxiliary operations cash-handling and recordkeeping was also responsible for performing bank reconciliations. In addition, the District did not prepare prenumbered cash receipt forms or reconcile sales to cash collected for auxiliary operations activities and student activities events. Also, auxiliary operations and student activities monies were not deposited in a timely manner. Further, the District did not always use bank accounts as authorized by statute, as federal tax withholdings were improperly deposited into the Auxiliary Operations Fund bank account.

Cash collected from athletic events and student activities was not deposited in the bank in a timely manner, leaving the cash subject to being lost or stolen.

Recommendations

To strengthen controls over auxiliary operations and student activities monies, the District should:

- Separate cash-handling and recordkeeping responsibilities among employees and ensure that bank reconciliations are prepared by an employee not responsible for these functions.
- Prepare prenumbered cash receipt forms.
- Prepare activity or cash collection reports to document auxiliary operations and student activities sales and reconcile sales to cash collected. For student activities events where it is not practical to determine the items sold, such as bake sales, clubs must still prepare a cash collection report to document cash collected. In addition, the District should prepare a deposit slip and later

A sample form to record student activities cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.

Sample cash collection reports for miscellaneous receipts and auxiliary operations cash receipts are on USFR pages VI-F-11 and X-G-22.

compare the amount deposited to the amounts on the activity or cash collection reports.

- Reconcile the activity or cash collection reports and supporting documentation to the validated bank deposit slips. Investigate all differences and make all necessary corrections.
- Deposit receipts intact daily, if significant, or at least weekly.
- Deposit federal tax withholdings into the Federal Payroll Tax Withholdings bank account until the monies are electronically transferred to the United States Treasury.